



MEMORANDUM

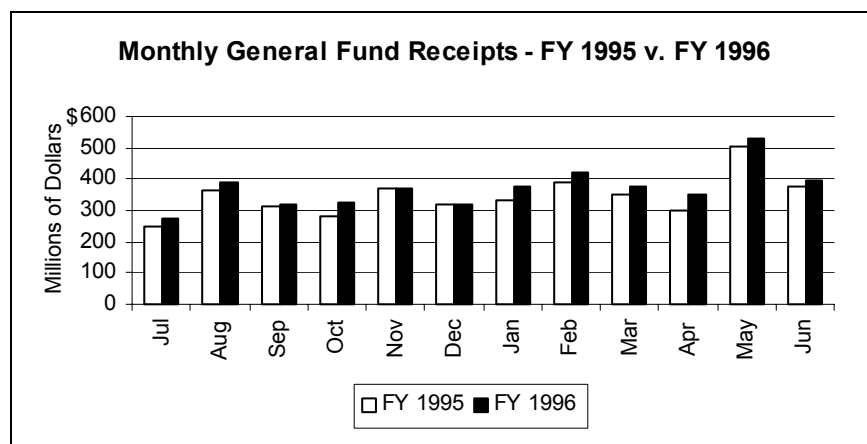
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Dennis C. Prouty

DATE: July 1, 1996

General Fund Receipts Through June 30, 1996

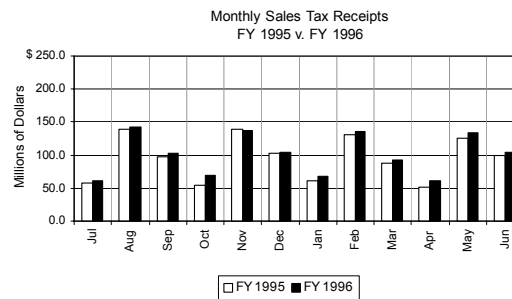
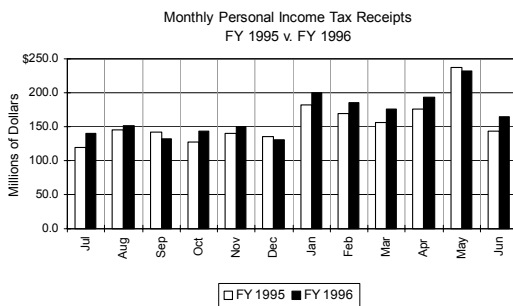
The attached spreadsheet represents total FY 1996 General Fund receipts, with comparable figures for FY 1995. These can also be compared to the latest FY 1996 estimate set by the Revenue Estimating Conference (REC). The next REC meeting will revisit the FY 1997 estimate, taking into account legislative changes signed into law since the April meeting.



Total FY 1996 General Fund receipts were 7.1% higher than FY 1995 receipts. Tax receipts showed an increase of 5.8%. Personal income tax receipts increased 6.7%. Sales tax receipts were 5.7% higher than the previous fiscal year. Use tax increased 6.0% compared to FY 1995, and corporate income tax receipts showed a 3.3% increase. This fiscal year had one less processing day than FY 1995, and also ended on a weekend, which had the effect of reducing the overall growth rate.

Gross personal income tax receipts in FY 1996 exceeded total FY 1995 receipts by approximately \$125.9 million, and surpassed \$2.0 billion for the first time. Income tax receipts received in June increased 15.4% compared to June 1995, led by increases in withholding and estimate payments of 13.6% and 30.1%, respectively. Actual FY 1996 individual income tax receipts exceeded the latest REC estimate by \$17.9 million, which represents 0.9% of actual receipts. Compared to the 3.4% growth rate estimated by the REC in December 1995, the forecasting difference was approximately \$61.9 million, or 3.1% of actual FY 1996 individual income tax receipts. The actual growth rate of 6.7% is especially

strong in light of the fact that legislative and administrative impacts reduced FY 1996 receipts by an estimated \$40.0 million. Had these adjustments not occurred, FY 1996 personal income tax receipts could have exceeded FY 1995 receipts by more than 8.8%. Although employment and wages generally continue to improve, the rate of growth is substantially less than the growth rate in each of the three components of the personal income tax.



On the heels of substantial growth in April and May, sales tax receipts in June were 5.9% higher than June of last year. Based on lackluster sales tax receipts through the first three quarters of FY 1996, the REC in April revised the sales tax estimate for FY 1996 downward by \$5.9 million. The last quarter proved to be the best of the year, finishing 8.6% higher than the fourth quarter of FY 1995. Actual sales tax receipts exceeded the April projection by approximately \$13.0 million, which represents 1.1% of actual sales tax receipts.

Corporate income tax receipts in June were \$14.0 million (35.0%) less than June 1995, but approximately \$8.0 million of this amount was due to a timing factor associated with the day of the week on which the fiscal year ended. Adjusted for processing, receipts over the last two months were 9.8% less than the closing months of 1995. The REC increased the FY 1996 estimate for corporate income tax receipts by \$5.0 million in April, and estimated that total FY 1996 receipts would exceed FY 1995 receipts by 3.5%, which missed the mark by less than 0.2%. Historically, corporate income tax receipts are the most volatile of the major taxes and can account for as much as one-half of the total difference between estimates and actual General Fund receipts. This year, corporate income tax estimates proved to be more accurate than any of the major tax estimates.

The REC revised the FY 1996 franchise tax estimate downward by \$3.0 million in April, indicating that legislation passed during the 1995 legislative session was not entirely successful in recovering lost revenues for FY 1996. However, receipts during the final quarter indicate that tax avoidance measures recently utilized by banks may be on the downswing. Franchise tax receipts in the last quarter of FY 1996 were 12.0% higher than the last quarter of FY 1995. Total franchise tax receipts for FY 1996 were \$26.5 million, which represents a decrease of 8.4% compared to FY 1995. Absent any legislation, it was anticipated that FY 1996 franchise tax receipts could have dropped as low as \$21.4 million.

Racing and gaming receipts finished the year strongly, surging 156.3% in the last month. Final receipts from tracks, slots, and riverboats totaled \$104.0 million, which is \$75.5 million (265.0%) more than FY 1995. House File 2421 (Transportation and Capitals Appropriations Act), which passed during the 1996 Legislative Session, provides that racing and gaming revenues exceeding \$60.0 million are to be deposited into the Rebuild Iowa Infrastructure Fund. Thus, the Infrastructure Fund will receive approximately \$44.0 million from FY 1996 gambling receipts. The Infrastructure Fund will also receive all gambling revenues exceeding \$60.0 million in FY 1997. Under current law, gambling receipts in FY 1998 and subsequent fiscal years will not be earmarked.

Receipts Compared to REC Estimate

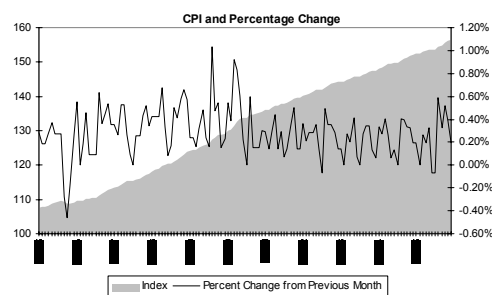
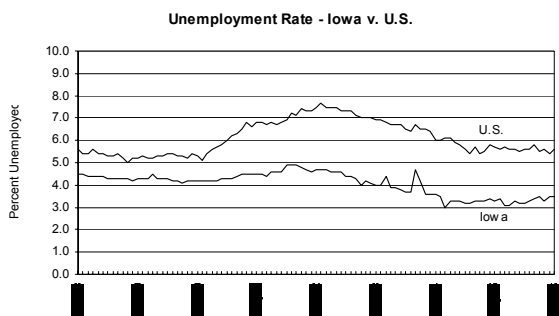
The April REC FY 1996 estimate of 5.9% was exceeded by \$50.3 million, or 1.2 percentage points. The following table compares actual FY 1996 growth with the December 1995 and April 1996 projections.¹

Actual Receipts Compared to REC Estimates			
	Dec. 1995 Estimate	April 1996 Estimate	FY 1996 Actual
Individual Income Tax	3.8%	5.8%	6.7%
Sales Tax	5.1%	4.6%	5.7%
Use Tax	7.1%	4.6%	6.0%
Corporate Income Tax	1.6%	3.5%	3.3%
Total General Fund	4.9%	5.9%	7.1%

Status of the Economy

The seasonally adjusted percent unemployed for the State remained at April's level of 3.5%. Total Iowa employment is at a record level of 1,566,900. The U.S. unemployment rate increased 0.2 percentage points to 5.6% in May, which is unchanged from May 1995.

Consumer prices in May rose 0.2%. The Consumer Price Index (CPI) through May 1996 was 156.6 (1983=100), which is 2.9% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through May 1996.



The Economic Forecasting Council met on June 18 and predicted that Iowa can expect slow and steady growth through 1998. Charles Whiteman, an economics professor at the University of Iowa, predicts personal income will grow 4.6% each year from 1996 through 1998, and State revenues will grow 5.2% and 5.9% in FY 1997 and FY 1998, respectively. In April, the REC estimated that FY 1997 revenues will reach \$4.541 billion, which is an increase of approximately 2.0% compared to actual FY 1996 revenues.

Receipts Information Available On-Line

Information related to State General Fund receipts continues to be made available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). Data is presented graphically and numerically in quarterly, monthly, and daily formats. If you have questions regarding this service, you may contact Glen Dickinson (1-4616) or Jon Muller (1-4611).

¹ Additional adjustments are required to compare FY 1996 actual receipts with REC estimates made prior to October 1996 because both the FY 1995 base and law changes would not be directly accounted for.

GENERAL FUND RECEIPTS - FY 1996 vs. FY 1995						ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1995, through June 30, 1996, in millions of dollars						FY 95 Actual Compared to FY 96 REC Estimate			
	FY 1995	FY 1996	Year to Date		June	FY 95 Actual	Estimate	FY 1996	% CHANGE
			FY 1996	% CHANGE	% CHANGE				
Personal Income Tax	\$ 1,875.0	\$2,000.9		6.7%	15.4%	\$ 1,875.0	\$ 1,983.0		5.8%
Sales Tax	1,147.3	1,213.0		5.7%	5.8%	1,147.3	1,200.0		4.6%
Use Tax	196.0	207.8		6.0%	4.8%	196.0	205.0		4.6%
Corporate Income Tax	268.7	277.6		3.3%	-35.1%	268.7	278.1		3.5%
Inheritance Tax	89.2	95.9		7.5%	2.7%	89.2	90.9		1.9%
Insurance Premium Tax	102.1	104.3		2.2%	-5.9%	102.1	101.0		-1.1%
Cigarette Tax	93.3	94.1		0.9%	-11.1%	93.3	94.0		0.8%
Tobacco Tax	5.1	5.3		3.9%	0.0%	5.1	5.2		2.0%
Beer Tax	12.4	12.6		1.6%	8.3%	12.4	12.5		0.8%
Franchise Tax	28.9	26.5		-8.3%	3.2%	28.9	26.4		-8.7%
Miscellaneous Tax	1.0	0.9		-10.0%	-30.8%	1.0	0.9		-10.0%
Total Special Taxes	\$ 3,819.0	\$4,038.9		5.8%	3.6%	\$ 3,819.0	\$ 3,997.0		4.7%
Institutional Payments	107.4	105.0		-2.2%	-8.0%	107.4	105.7		-1.6%
Liquor Transfers:									
Profits	26.4	29.0		9.8%	47.1%	26.4	27.0		2.3%
7% Gross Revenue	9.0	9.0		0.0%	0.0%	9.0	9.0		0.0%
Interest	17.3	13.5		-22.0%	-55.3%	17.3	12.0		-30.6%
Fees	57.3	61.7		7.7%	-19.1%	57.3	61.1		6.6%
Judicial Revenue	48.4	40.0		-17.4%	-2.1%	48.4	40.1		-17.1%
Miscellaneous Receipts	40.7	49.5		21.6%	52.4%	40.7	49.1		20.6%
Racing and Gaming Receipts	28.5	104.0		265.0%	156.3%	28.5	99.3		248.4%
TOTAL RECEIPTS	\$ 4,154.0	\$4,450.6		7.1%	4.9%	\$ 4,154.0	\$ 4,400.3		5.9%